

The National Council on Competition and the Electric Industry

vol. 1 no. 4 August 1997

A partnership between NARUC and NCSL to deliver high-quality and timely information on electric industry restructuring into the hands of decisionmakers

RENEWABLES PORTFOLIO STANDARD: STATUS OF STATE AND FEDERAL ACTIVITY

As part of electric utility restructuring, some states are considering how to support renewable energy in a competitive world. Two options that have received attention include a system benefits charge targeted for renewables and a renewables portfolio standard (RPS).

The RPS is a market-based policy that can be designed

COUNCIL PROFILE

Richard Cowart, the National Council's chair since 1995, has served as Chair of the Vermont Public Service Board since 1987, where he has promoted consumer protection, economic development, and regulatory reform in both the telecommunications and energy industries. Prior to his Board appointment, he was a law professor with a focus on environmental and community development law and policy.

Last December the Board completed a thorough investigation of electric industry competition with a report now under review in the Vermont General Assembly. Chairman Cowart has also emerged as a national leader on electric restructuring and energy and environmental policy, serving in leadership roles in a number of national institutions. He is the immediate past chair of NARUC's Committee on Energy Resources and the Environment, which has played a key role in U.S. electric industry reform over the past decade. He has been invited to testify before the U.S. Congress, the FERC, and state legislatures around the country. Richard sits on the Advisory Council of the Electric Power Research Institute, and was recently appointed to EPA's Clean Air Act Advisory Committee.

Under Richard's leadership, the National Council has evolved into a dynamic and well-respected provider of information on restructuring to decisionmakers across the country. It has sponsored an important series of research reports, coordinated numerous technical assistance activities at the state and regional levels, promoted effective coordination between environmental and economic regulators, and has taken the lead in consumer right-to-know issues in a competitive electric industry.

Richard also serves on the board of directors for the Alliance to Save Energy, is an adjunct faculty member at the Environmental Law Center at Vermont Law School, and is a member of the Harvard Electricity Policy Group. He was the 1996 recipient of the Walton Award for public service in the state of Vermont. In addition to his many policy leadership roles, Richard has written articles on key energy issues. He was co-author of the "Declaration of Independence," focused on creating competitive electricity markets through Independent System Operators; a more recent *Electricity Journal* article (April 1997) discusses a proposal to create a National System Benefits Trust to support public purpose programs in a restructured electric industry.

to maintain or increase the amount of renewable energy in the overall electric resource portfolio. It can be set up to require all generators or retail sellers to demonstrate, through ownership of tradable "renewable energy credits," that they have supported the generation of a certain amount of renewable power. While the RPS can work under traditional regulation, it was conceived especially to work with retail competition. The government's role under an RPS might be limited to certifying the generation output of renewable energy producers and issuing the appropriate number of renewable energy credits, verifying that power suppliers possess the required number of credits at the end of each year, and imposing a significant penalty for non-compliance. As has been demonstrated with the EPA's tradable emissions permit program for acid rain, full compliance might be assured by setting the penalty at a sufficiently high level.

The following summary reflects the current status of state and federal activity on the RPS.

Maine: A 30% RPS requirement was signed into law in May of this year. Implementation rules have not been established yet. Retail competition begins on March 1, 2000. While the 30% renewables requirement may seem high, it may be well under the current amount of eligible renewable energy in the system. Even so, this requirement is likely to prevent the closure of some existing plants that might have resulted when retail competition begins. The provision has no sunset; however, the Maine commission is instructed to review the 30% portfolio requirement and make a recommendation for any change to the legislature no later than 5 years after the beginning of retail competition.

Nevada: The Nevada legislature adopted an RPS as a part of its restructuring bill in July 1997. The legislation sets forth a 0.2% renewables portfolio standard to take effect on January 1, 2001, which will be increased biannually thereafter by 0.2% until the standard reaches a total of 1% of the total amount of electricity consumed. In each year, half of the amount must be derived from solar resources. Nevada has a relatively small, but fast growing, load. Even without the gradual increase to 1%, the effect of Nevada's growing load on the percentage-based standard will be a requirement for an increasing amount of renewable generation each year.

Arizona: The Arizona Corporation Commission has adopted a solar-only portfolio standard. By 1999 all electric service providers doing business in Arizona must obtain at least 0.5% of their power from a new photovoltaic or solar

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NCSL's RECENT ANNUAL MEETING

The NCSL Annual Meeting, held during the first week of August in Philadelphia, devoted a session to electric industry restructuring issues. The Science Energy and Environmental Resources (SEER) committee meeting was attended by more than 175 legislators, legislative staff, and interested parties. The committee approved a "Checklist for Electricity Restructuring" that had been developed by NCSL staff with input from legislators, legislative staff, regulatory commissions, government agencies and industry around the country. The Checklist is an attempt to assemble a comprehensive list of issues that state legislation on electric industry restructuring may need to address. It provides one way for state policy makers to compare their own proposals with those other states are making. Copies of the "Checklist for Electric Industry Restructuring" are available from Matthew Brown at NCSL.

The NCSL Annual Meeting was also an opportunity for state legislators to learn directly from each other and from other policy makers. The Energy Committee heard presentations from legislators who had carried electric industry restructuring legislation through their legislatures in Montana and Oklahoma, including details on how this legislation addresses a wide variety of public benefit, stranded cost, market power, and other important restructuring issues.

UPCOMING MEETINGS/CONFERENCES

1997 NASEO Annual Meeting. September 28-October 1, 1997. Portland, OR.

Executive Dialogue on Public Purpose R&D. October 14-15, 1997. St. Louis, MO.

NCSL Assembly on State Issues and Assembly on Federal Issues. November 5-7, 1997. Washington, D.C.

109th NARUC Annual Convention. November 10-13, 1997. Boston, MA.

National Council on Competition and the Electric Industry—Steering Committee Meeting. November 13-14, 1997. Boston, MA.

DOE National Electricity Forum. December 7-9, 1997. Washington, D.C.

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NATIONAL COUNCIL PUBLICATIONS ON

ELECTRIC INDUSTRY RESTRUCTURING

RESEARCH REPORTS

Federal, State, and Local Tax Implications of Electric Industry Restructuring (Deloitte & Touche, 1996)

Assessing Impacts of Restructuring on Small Business, Residential, and Low-Income Customers (Roger D. Colton, 1996)

The Unintended Impacts of Restructuring (Dave Schoengold, 1996)

The Organization of Competitive Wholesale Power Markets and Spot Price Pools (Paul A. Centolella, 1996)

Stranded Benefits in Electric Utilities Restructuring (Nancy Brockway & Michael Sherman, 1996)

The British Electric Utility Restructuring Experience: History and Lessons for the U.S. (Michael C. Brower, Stephen D. Thomas, & Catherine Mitchell, 1996)

Regulation and Competition Without Privatization: Norway's Experience (Jan Moen & Jan Hamrin, Printed in *The Electricity Journal*, March 1996.

BRIEFING PAPERS

Customer Choice (Cheryl Harrington, 1996)

Electric Utility Transition Costs (Eric Hirst & Lester Baxter, 1996)

Market Power (William Shepherd, in print)

Restructuring Issues Associated with Nuclear Power Plants (William B. Marcus, in print)

Regional Issues of Restructuring (Sue Tierney, forthcoming Fall 1997)

DISCLOSURE SERIES

Full Environmental Disclosure for Electricity: Tracking and Reporting Key Information (David Moskovitz et al., July 1997)

Information Disclosure for Electricity Sales: Consumer Preferences from Focus Groups (Alan S. Levy et al., July 1997)

Disclosure of Fuel Mix and Emissions by Electric Retail Service Providers: Confidentiality vs. the Public's Right to Know (Scott Hempling, July 1997)

Information Disclosure for Electricity Sales: Consumer Preferences from Focus Groups, Report 2—West Coast (Mario Teisel et. al., in print)

Information Disclosure for Electricity Sales: Consumer Preferences from Focus Groups, Report 3—Rocky Mountain West (Lynn Halverson & Edward Holt, in print)

OTHER

A Glossary of Restructuring Terms

From the Executive Director: Energy Efficiency and Restructuring

This is the first in a series. In each issue, the Executive Director will explore a perplexing issue regarding electric restructuring.

How will utility demand-side management (DSM) fare in a restructured electricity industry? That's a question I often hear my colleagues ask. These colleagues are the utility regulators, utility DSM managers, staff of energy-efficiency-advocating-NGOs such as ACEEE, NRDC, and the Alliance to Save Energy, consultants, and government officials operating in the energy efficiency arena who have helped usher DSM into our culture (many since the late 1970s). How the customer energy efficiency business will fare in the new electricity world of retail competition and market-based retail rates is enormously uncertain. How much DSM will still-regulated distribution utility companies provide for their customers during a transition in which they are jockeying for post-transition position? How much energy efficiency services will the new competing power marketers offer customers as inducement to acquire and maintain market share? A few of my colleagues are optimistic. Most, however, believe the demise of DSM is imminent without government intervention; after all, they needed government intervention to induce significant utility DSM in the first place.

Of course, there *will* be government intervention. It's government intervention that is bringing restructuring. The question is, "How much and what kind of government intervention will be focused on energy efficiency?" My pessimistic colleagues seem reluctant to risk losing the level of customer energy efficiency services they have built over the past 20 years. They argue that the traditional DSM funding and role of the distribution utility company must be maintained as much as possible. But today's best DSM-utility programs have reduced customer energy consumption by only two or three percent compared to the twenty to twenty five percent that analysts claim is "practically achievable." Why are my colleagues grasping so hard to hold on to a program with such marginal achievements? Partly it's because we tend to be comfortable with what we know. Partly, it's because the 2-3% savings from DSM are not insignificant. PG&E, for example, has helped customers over the last 20 years save about \$5 billion through a diverse mix of customer energy efficiency programs and has conducted more than 2 million energy audits, which informed customers how they can save even more.

Still, the opportunity to restructure the customer energy efficiency element of the electricity industry is appealing. The upside potential for achieving some of the unrealized 90% of the "practically achievable" efficiency potential seems much higher to many than the downside risk of losing some of the 10% we have already achieved. Perhaps that was what was in the minds of the California Public Utilities Commission (CPUC) members last February when they issued a decision concluding that utilities should no longer have the exclusive right to manage the state's energy efficiency programs. Instead, the CPUC stated that all energy service companies (both utilities and non-utilities) should bid for the right to manage future programs. The CPUC also announced its longer term objective: "Our ... mission ... is to ultimately privatize the provision of cost-effective energy efficiency services so that customers seek and obtain these services in the private, competitive market. (It is in support of this mission that the CPUC proposes to spend, over the next 4 years, the \$872 million for cost-effective energy efficiency and conservation activities that the California legislature established last year as a transitional system benefits charge.)

Will the CPUC approach bring improvements? Will other states find more effective approaches to achieving customer energy efficiency? We'll only know after struggling at it for a few years. But the struggle seems to be enormously worthwhile.

Stephen Wiel

UPDATE ON THE DISCLOSURE PROJECT

The New England Project, a part of the National Council's Consumer Information Disclosure Project, is moving rapidly toward completion. The purpose of the project is to work with New England's regulators and stakeholders to develop recommendations on uniform disclosure standards for the whole region. The Regulatory Assistance Project (RAP) is staffing the New England Project. A 60-page draft report containing RAP's recommendations was delivered to the six New England PUCs on August 29, 1997. A final report will be issued a few weeks later. (The report can be downloaded from the RAP's home page: <http://www.rapmaine.org/>)

The involvement of a whole region and a comprehensive approach make this project particularly important. It represents a major effort by six states to resolve all consumer disclosure issues in a uniform fashion. Regional uniformity is expected to benefit consumers and suppliers alike. The issues addressed range from what should be disclosed, to

the specific format of a label, to the details of the regionwide tracking system.

Focus Group Reports: The final reports from the focus groups conducted on the West Coast and in Colorado are in print. (See the Council's list of Publications on page 2.) The last round of focus groups was completed in Ohio in September; the report on that research will also be available soon.

Quantitative consumer research will be completed later this fall. One part consists of a telephone poll to assess consumer understanding, awareness, practices, and attitudes. This research will be completed in September and reports will be available soon thereafter. The final part of consumer research will be to test alternative labels directly on consumers. Consumers in six shopping malls around the country will be asked to tell us which label format allows them to most easily compare options and make choices.

(RPS: continued from page 1)

thermal source. The solar requirement increases to 1% in 2002. It could create a market for solar on the order of 120 MW by 2002.

Vermont: The State Senate passed the RPS policy proposed by the Public Service Board as a part of its restructuring plan; this and other restructuring issues are now being studied in the House. The requirement would start at about 14% and grow to about 18% by 2007. The state currently gets about 14% from non-large-hydro renewables. The 4% increment must be supplied by advanced technologies, to be defined by the PSB. Since total consumption in the state is about 5 billion kWh, a 14% requirement would be about 700 million kWh.

Federal RPS Bills: The following table summarizes the RPS provisions in four federal electric industry restructuring bills that are now pending in Congress. Non-hydro renewables are estimated to account for about 2% of current national electricity sales.

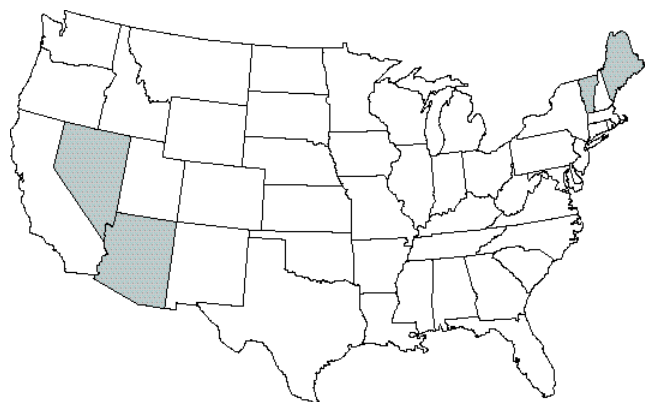
How a Federal RPS Would Relate to State RPS Requirements: An explicit clause allowing states to take further actions promoting renewables would make it clear that the federal RPS requirement is a floor upon which states may build. (Markey's, Schaefer's, and Bumpers' bills each include such a clause.) Otherwise, the federal requirement could pre-empt state action and act as a ceiling.

Other State Renewables Policies: In addition to the RPS activities outlined above, states where an RPS is under consideration or where system benefits charges to support renewable energy are being considered or have been developed include: California, Massachusetts, Nebraska, the Pacific Northwest (Idaho, Montana, Oregon, and Washington), Rhode Island, and Wisconsin.

Ryan Wiser (LBNL), Nancy Rader (independent consultant who serves as policy advisor to AWEA), and Stuart Chaitkin (LBNL and National Council staff) contributed to this article.

Federal Restructuring Bills That Include An RPS									
Author	Bill #	2000	2003	2005	2008	2010	2013	2020	Notes
Sen. Bumpers (D-AR)	S237		5%		9%		12%	Expires	Large hydro eligible. Applies to retailers.
Rep. Markey (D-MA)	HR1960	3% (1998)				10%	10%	10%	Hydro not eligible. Applies to generators.
Sen. Jeffords (R-VT)	S687	2.5%	4%	5%	8%	10%	13%	20%	Hydro not eligible. Applies to non-hydro generators.
Rep. Schaefer (R-CO)	HR655	2%		3%		4%	4%	4%	Hydro not eligible. Applies to non-hydro generators.

States with Significant RPS Activity



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